

## Message Text

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53

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-02

PRS-01 USIA-15 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00

XMB-04 OPIC-06 LAB-04 SIL-01 INT-05 /116 W

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R 031250Z SEP 75

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC 4611

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS UNN

USMISSION GENEVA

UNCLAS LUXEMBOURG 0694

E.O. 11652: N/A

TAGS: ECON, LU

SUBJ: LUXEMBOURG'S ECONOMIC SITUATION

1. SUMMARY. THE GOL HAS BEEN HOLDING A SERIES OF SPECIAL MEETINGS ON THE ECONOMIC SITUATION AND PREPARING EMERGENCY MEASURES TO MAINTAIN EMPLOYMENT. LUXEMBOURG'S ECONOMY IS DOMINATED BY STEEL, AN INDUSTRY WHOSE PRODUCTION HERE IS DOWN 23 PERCENT FOR THE JAN/JULY PERIOD 1975 VERSUS 1974, COMPARED TO AN OVERALL EC STEEL PRODUCTION DECLINE OF 15.4 PERCENT. PROSPECTS ARE NOT BRIGHT FOR THE NEXT MONTHS GIVEN THE LOW STATE OF MAJOR STEEL CUSTOMERS SUCH AS THE AUTOMOBILE AND CONSTRUCTION INDUSTRIES. GOL GELT IT NECESSARY TO CALL  
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MINISTERS BACK FROM USUALLY INVIOLEATE SUMMER VACTIONS TO

PARTICIPATE IN EMERGENCY PLANNING SESSIONS. RESULT SO FAR IS A MAJOR GOVERNMENT SUBSIDIZED PUBLIC WORKS PROGRAM WHICH GOL OFFICIALS BELIEVE WILL KEEP UNEMPLOYMENT OR PARTIAL UNEMPLOYMENT AT ACCEPTABLE LEVELS THRU SPRING OF 1976. END OF SUMMARY.

2. ALTHOUGH DIFFICULTIES IN THE STEEL INDUSTRY ARE ALREADY EVIDENT, THE REAL CRUNCH IS EXPECTED FROM OCTOBER ONWARDS. FULL EMPLOYMENT IS A NATIONAL GOAL PAR EXCELLENCE IN LUXEMBOURG AND ONE UNIVERSALLY SUPPORTED BY ALL SEGMENTS OF SOCIETY. AS ONE GOVERNMENT OFFICIAL POINTED OUT TO EMBASSY OFFICERS, EVEN IN THE GREAT DEPRESSION WHEN LUXEMBOURG'S PRODUCTION FELL MORE SEVERELY THAN VIRTUALLY ANYWHERE ELSE IN WESTERN EUROPE, THE UNEMPLOYMENT RATE WAS KEPT THE LOWEST.

3. MINISTER OF LABOR BENNY BERG DESCRIBED TO THE CHARGE THE METHODS CHOSEN BY THE GOVERNMENT TO MAINTAIN EMPLOYMENT. GOL IS SIGNING CONTRACTS WITH THE COUNTRY'S TWO MAJOR STEEL PRODUCERS, ARBED AND MMR-A, FOR A VARIETY OF PUBLIC WORKS PROJECTS. TO DATE SOME 47 CONTRACTS INVOLVING 696 WORKERS OF THE TWO FIRMS HAVE BEEN CONCLUDED. BY THIS DEVICE, OTHERWISE UNNEEDED WORKERS WILL REMAIN ON THE COMPANIES' PAY ROLLS, ALTHOUGH THEY WILL BE PERFORMING PUBLIC WORKS TASKS. THE MINISTER EXPECTS FULL COOPERATION FROM THE LABOR UNIONS AS WELL AS ACCEPTANCE BY WORKERS INVOLVED. HE BELIEVES THAT THIS EXPERIMENT COULD PROBABLY ONLY BE SUCCESSFUL IN A COUNTRY AS SMALL AS LUXEMBOURG. IT REMAINS TO BE SEEN HOW WELL THIS WILL WORK IN PRACTICE. THE ALTERNATIVE WORK PROVIDED, WORKING HOURS, AND DISTANCES FROM USUAL PLACE OF EMPLOYMENT ARE MAJOR FACTORS.

4. IN THE COURSE OF AN INFORMAL MEETING, CHARGE AND ECON OFF, ASKED MR. CHARLES REICHLING, DIRECTOR OF INTERNATIONAL ECONOMIC RELATIONS, MFA, FOR HIS VIEWS. MR. REICHLING BELIEVES THAT THE WORKING POPULATION IN LUXEMBOURG HAS NOT YET ACCEPTED THE FACT THAT THERE IS A GENUINE ECONOMIC CRISIS. THE RECESSION HIT LUXEMBOURG LATER THAN SEVERAL OTHER EUROPEAN COUNTRIES, BUT THE DROP UNCLASSIFIED

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IN PRODUCTION HAS BEEN SHARPER. THE POSSIBLE FIRST EFFECTS ON WORKERS WERE CUSHIONED BY INDUSTRY RESORTING TO REDUCED HOURS RATHER THAN LAYOFFS. MINIMAL REDUCTION IN INCOME RECEIVED IN THE KEY STEEL INDUSTRY SHELTERED OTHER SECTORS FROM REDUCED CONSUMER DEMAND. SUMMER VACATION PERIOD CLOSE-DOWNS ALSO SERVED TO CONCEAL THE SITUATION. THE GOVERNMENT'S CONTRACT MEASURES DESCRIBED ABOVE WILL PROVIDE EMPLOYEES APPROXIMATELY

90 PERCENT OF THEIR REGULAR WAGES. SHOULD THE WESTERN EUROPEAN AND US ECONOMIES NOT REGISTER GROWTH DURING THE WINTER MONTHS, THE GOL RESOURCES WILL BE SEVERELY STRAINED. REVIVAL OF THE GERMAN ECONOMY IS CRITICAL HERE, WITH BELGIUM'S NEXT IN IMPORTANCE.

5. MR. REICHLING MAY LAMENT THE LACK OF PUBLIC COMPREHENSION OF THE CRISIS, BUT HE NONETHELESS COUNSELS AGAINST UNDUE PESSIMISM AND SEES IMPROVEMENT EARLY IN 1976. REGARDING THE FIVE-POWER ECONOMIC SUMMIT PROPOSED BY FRANCE, MR. REICHLING REMARKED THAT LUXEMBOURG AND OTHER NON-INVITED COUNTRIES WOULD, OF COURSE, MAKE A PRO-FORMS PROTEST OF THEIR EXCLUSION. IN FACT, HE BELIEVES THAT A CONFERENCE WITH A FEW MAJOR COUNTRIES IS THE ONLY REALISTIC WAY OF MAKING NECESSARY FINANCIAL DECISIONS, IN HIS VIEW A SITUATION THE SMALLER COUNTRIES FULLY UNDERSTAND.

6. COMMENT. GOL IS AWARE THAT ANY MEASURES IT MAY TAKE HAVE NO APPRECIABLE EFFECT BEYOND ITS BORDERS. LUXEMBOURG'S ECONOMY MUST AWAIT A REVIVAL IN NEIGHBORING COUNTRIES. MINISTER BERG NOTED WITH PLEASURE THE SUCCESSIVE MONTHS OF IMPROVEMENT IN US ECONOMIC INDICATORS. HE EXPRESSED THE VIEW, HOWEVER, THAT RECOVERY FROM THIS RECESSION BOTH IN US AND EUROPE WOULD BE A LONGER AND SLOWER PROCESS THAN IN PREVIOUS EXPERIENCES. IN ANY CASE, THE RIPPLES OF A US RECOVERY WOULD REACH HERE ONLY VIA OTHER EC NATIONS.  
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